

CITY OF PRESNO
AUDIT REPORT
DECEMBER 31, 2009

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Presho
Presho, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Presho, South Dakota, as December 31, 2009, and for each of the years in the biennial period then ended, and have issued my report thereon dated August 26, 2010. My report was modified because the financial statements were prepared on the cash basis of accounting.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the City of Presho's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

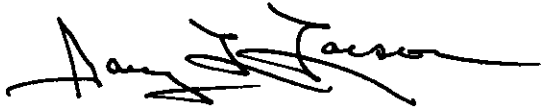
I consider the deficiencies described in the Schedule of Current Audit Findings as item number 2009-01, 2009-02, 2009-03 and 2009-04 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Presho's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. See item number 2009-02, 2009-03, 2009-04, and 2009-05 in the Schedule of Current Audit Findings.

The City of Presho's response to the findings identified in my audit are described in the accompanying Schedule of Current Audit Finding. I did not audit the City of Presho's response, and accordingly, I express no opinion on it.

This report is intended solely for the information and use of the governing board and information of the management of the City of Presho, the South Dakota Legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, as required by SDLC 4-11-11 this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Amy J. Larson". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

August 26, 2010

Gary L. Larson, CPA

900 Winchester Drive
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(605) 940-1284

INDEPENDENT AUDITOR'S REPORT

City Council
City of Presho
Presho, South Dakota

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Presho, South Dakota, as of December 31, 2009, and for each of the years in the biennial period then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Presho's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

As discussed in Note 1, the City of Presho prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-cash basis, of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Presho, South Dakota, at December 31, 2009 and the respective changes in financial position thereof for each of the years in the biennial period then ended, in conformity with the basis of accounting described in Note 1.

In accordance with the Government Auditing Standards, I have also issued my report dated August 26, 2010 on my consideration of the City of Presho's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of my audit.

The budgetary comparison information on pages 39 through 47 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

The City of Presho has not presented the Management's Discussion and Analysis (MD&A) that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

A handwritten signature in black ink, appearing to read "David J. Larson". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

August 26, 2010

CITY OF PRESNO
STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	TOTAL
ASSETS:			
Cash and cash equivalents	\$310,754	\$97,245	\$407,999
Investments	196,148	0	\$196,148
TOTAL ASSETS	<u>\$506,902</u>	<u>\$97,245</u>	<u>\$604,147</u>
NET ASSETS:			
Unrestricted	<u>\$506,902</u>	<u>\$97,245</u>	<u>\$604,147</u>
TOTAL NET ASSETS	<u>\$506,902</u>	<u>\$97,245</u>	<u>\$604,147</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF PRESHO
STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Functions/Programs	PROGRAM REVENUES	
	Expenses	Changes for Services
Governmental Activities:		
General government	\$95,896	\$0
Public safety	12,318	1,587
Public works	175,921	14,347
Culture and recreation	96,044	9,912
Liquor agreements	115,430	138,856
TOTAL GOVERNMENTAL ACTIVITIES	495,609	164,702
Business-type Activities:		
Water	95,925	93,857
Sewer	940	36,843
TOTAL BUSINESS-TYPE ACTIVITIES	96,865	130,700
TOTAL	\$592,474	\$295,402

GENERAL REVENUES:

Property taxes
Sales taxes
State shared revenues
Unrestricted investment earnings
Other general revenues
TRANSFERS

Total General Revenues and Transfers

Change in net assets

Net Assets-beginning

NET ASSETS-ending

The accompanying notes to financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Governmental Activities	Business-type Activities	Total
(\$95,896)	\$0	(\$95,896)
(10,731)	0	(10,731)
(161,574)	0	(161,574)
(86,132)	0	(86,132)
23,426	0	23,426
(330,907)	0	(330,907)
0	(2,068)	(2,068)
0	35,903	35,903
0	33,835	33,835
(\$330,907)	\$33,835	(\$297,072)
121,523	0	121,523
143,528	0	143,528
3,532	0	3,532
7,021	0	7,021
30,547	0	30,547
10,000	(10,000)	0
316,151	(10,000)	306,151
(14,756)	23,835	9,079
521,658	73,410	595,068
\$506,902	\$97,245	\$604,147

CITY OF PRESHO
STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2008

Functions/Programs	PROGRAM REVENUES	
	Expenses	Changes for Services
Governmental Activities:		
General government	\$88,299	\$0
Public safety	247,735	819
Public works	111,040	13,214
Culture and recreation	96,118	10,332
Liquor agreements	108,110	131,773
TOTAL GOVERNMENTAL ACTIVITIES	651,302	156,138
Business-type Activities:		
Water	96,144	94,246
Sewer	30,991	31,344
TOTAL BUSINESS-TYPE ACTIVITIES	127,135	125,590
TOTAL	\$778,437	\$281,728

GENERAL REVENUES:
Property taxes
Sales taxes
State shared revenues
Unrestricted investment earnings
Other general revenues

Total General Revenues

Change in net assets

Net Assets-beginning

NET ASSETS-ending

The accompanying notes to financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
\$0	(\$88,299)	\$0	(\$88,299)
242,500	(4,416)	0	(4,416)
0	(97,826)	0	(97,826)
150,000	64,214	0	64,214
0	23,663	0	23,663
392,500	(102,664)	0	(102,664)
0	0	(1,898)	(1,898)
0	0	353	353
0	0	(1,545)	(1,545)
\$392,500	(\$102,664)	(\$1,545)	(\$104,209)
	118,769	0	118,769
	147,913	0	147,913
	13,201	0	13,201
	9,818	0	9,818
	12,485	0	12,485
	302,186	0	302,186
	199,522	(1,545)	197,977
	322,136	74,955	397,091
	\$521,658	\$73,410	\$595,068

**CITY OF PRESHO
BALANCE SHEET-CASH BASIS-
GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	General Fund	Library Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$309,021	\$1,733	\$310,754
Investments	0	196,148	196,148
TOTAL ASSETS	<u>\$309,021</u>	<u>\$197,881</u>	<u>\$506,902</u>
 FUND BALANCES:			
Unreserved:			
Undesignated	<u>\$309,021</u>	<u>\$197,881</u>	<u>\$506,902</u>
 Total Fund Balance	<u>\$309,021</u>	<u>\$197,881</u>	<u>\$506,902</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF PRESNO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
- CASH BASIS GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$119,741	\$0	\$119,741
General sales taxes	143,360	0	143,360
Amusement taxes	168	0	168
Penalties and interest on tax	1,782	0	1,782
Licenses and permits	1,408	0	1,408
Intergovernmental Revenue			
State shared revenues	11,094	0	11,094
County shared revenues	9,881	0	9,881
Charges for Goods and Services:			
Sanitation	3,413	0	3,413
Airport	3,372	0	3,372
Culture and recreation	9,912	0	9,912
Fines and Forfeits:			
Fines	60	1,527	1,587
Miscellaneous Revenue			
Interest earned	4,837	2,184	7,021
Rentals	3,600	0	3,600
Liquor operating agreements	135,256	0	135,256
Other	19,258	0	19,258
Total Revenue	<u>\$467,142</u>	<u>\$3,711</u>	<u>\$470,853</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF PRESNO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
- CASH BASIS GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	General Fund	Library Fund	Total Governmental Funds
Expenditures:			
General Government			
Legislative	4,467	0	4,467
Executive	4,505	0	4,505
Elections	553	0	553
Financial administration	44,248	0	44,248
Other	42,123	0	42,123
Public Safety			
Dog Catcher	130	0	130
Fire	12,188	0	12,188
Public Works			
Highways and streets	162,009	0	162,009
Sanitation	6,564	0	6,564
Airport	7,348	0	7,348
Culture and Recreation:			
Recreation	58,600	0	58,600
Parks	21,873	0	21,873
Library	11,454	4,117	15,571
Other			
Liquor agreements	115,430	0	115,430
Total Expenditures	<u>\$491,492</u>	<u>\$4,117</u>	<u>\$495,609</u>
Excess of revenues over (under) expenditures	(24,350)	(406)	(24,756)
Other Financing Sources (Uses):			
Transfers-in	<u>10,000</u>	<u>0</u>	<u>10,000</u>
Net Change in Fund Balances	(14,350)	(406)	(14,756)
FUND BALANCE JANUARY 1, 2009	<u>323,371</u>	<u>198,287</u>	<u>521,658</u>
FUND BALANCE, DECEMBER 31, 2009	<u><u>\$309,021</u></u>	<u><u>\$197,881</u></u>	<u><u>\$506,902</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF PRESHO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
- CASH BASIS GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$116,395	\$0	\$116,395
General sales taxes	147,745	0	147,745
Amusement taxes	168	0	168
Penalties and interest on tax	2,374	0	2,374
Licences and permits	1,255	0	1,255
Intergovernmental Revenue			
Federal grants	242,500	0	242,500
State shared revenues	21,044	0	21,044
County shared revenues	449	0	449
Charges for Goods and Services:			
Sanitation	2,476	0	2,476
Airport	2,895	0	2,895
Culture and recreation	10,332	0	10,332
Fines and Forfeits			
Fines	90	729	819
Miscellaneous Revenue			
Interest earned	6,208	3,610	9,818
Rentals	3,600	0	3,600
Contributions	0	150,000	150,000
Liquor operating agreement income	128,173	0	128,173
Other	10,781	0	10,781
Total Revenue	\$696,485	\$154,339	\$850,824

The accompanying notes to financial statements are an integral part of this statement.

CITY OF PRESNO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
- CASH BASIS GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Library Fund	Total Governmental Funds
Expenditures:			
General Government			
Legislative	4,447	0	4,447
Executive	3,698	0	3,698
Elections	30	0	30
Financial administration	37,424	0	37,424
Other	42,700	0	42,700
Public Safety			
Dog Catcher	162	0	162
Fire	247,573	0	247,573
Public Works			
Highways and streets	101,913	0	101,913
Sanitation	6,407	0	6,407
Airport	2,720	0	2,720
Culture and Recreation:			
Recreation	50,105	0	50,105
Parks	19,632	0	19,632
Library	10,635	15,746	26,381
Other			
Liquor agreements	108,110	0	108,110
Total Expenditures	<u>\$635,556</u>	<u>\$15,746</u>	<u>\$651,302</u>
Net Change in Fund Balances	60,929	138,593	199,522
FUND BALANCE JANUARY 1, 2008	<u>262,442</u>	<u>59,694</u>	<u>322,136</u>
FUND BALANCE, DECEMBER 31, 2008	<u><u>\$323,371</u></u>	<u><u>\$198,287</u></u>	<u><u>\$521,658</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF PRESHO
BALANCE SHEET - CASH BASIS - PROPRIETARY FUNDS
DECEMBER 31, 2009

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$43,508	\$53,737	\$97,245
TOTAL ASSETS	\$43,508	\$53,737	\$97,245
NET ASSETS			
Unrestricted net assets	\$43,508	\$53,737	\$97,245
Total Net Assets	\$43,508	\$53,737	\$97,245

The accompanying notes to financial statements are an integral part of this statement.

CITY OF PRESHO
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
CASH BASIS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES:			
Charges for goods and services	\$93,857	\$36,843	\$130,700
OPERATING EXPENSES:			
Personal services	36,854	0	36,854
Other current expense	6,819	940	7,759
Cost of goods sold	52,252	0	52,252
Total Operating Expenses	95,925	940	96,865
Income (loss) before transfers	(2,068)	35,903	33,835
Transfers out	0	(10,000)	(10,000)
Change in Net Assets	(2,068)	25,903	23,835
NET ASSETS, BEGINNING	45,576	27,834	73,410
NET ASSETS, ENDING	\$43,508	\$53,737	\$97,245

The accompanying notes to financial statements are an integral part of this statement.

CITY OF PRESNO
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
CASH BASIS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES:			
Charges for goods and services	\$94,246	\$31,344	\$125,590
OPERATING EXPENSES:			
Personal services	35,973	0	35,973
Other current expense	6,036	9,052	15,088
Cost of goods sold	54,135	0	54,135
Capital assets	0	21,939	21,939
Total Operating Expenses	96,144	30,991	127,135
Change in Net Assets	(1,898)	353	(1,545)
NET ASSETS, BEGINNING	47,474	27,481	74,955
NET ASSETS, ENDING	\$45,576	\$27,834	\$73,410

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF PRESHO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Private Purpose Trust Fund
ASSETS:	
Cash and cash equivalents	<u>\$22,200</u>
TOTAL ASSETS	<u><u>\$22,200</u></u>
NET ASSETS	
Held in trust	<u>\$22,200</u>
Total Net Assets	<u><u>\$22,200</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF PRESNO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Interest	\$33
Contributions	<u>15,500</u>
Total Additions	<u>\$15,533</u>
DEDUCTIONS	
Trust distributions	<u>7,500</u>
Total Deductions	<u>7,500</u>
Change in Net Assets	8,033
Net Assets - beginning	<u>14,167</u>
Net Assets - ending	<u><u>\$22,200</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF PRESNO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Private Purpose Trust Fund
ADDITIONS	
Interest	\$23
Contributions	<u>15,500</u>
Total Additions	<u>\$15,523</u>
DEDUCTIONS	
Trust distributions	<u>11,307</u>
Total Deductions	<u>11,307</u>
Change in Net Assets	4,216
Net Assets - beginning	<u>9,951</u>
Net Assets - ending	<u><u>\$14,167</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF PRESHO
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1 c., these financial statements are presented on cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting.

a. Financial Reporting Entity:

The reporting entity of the City of Presho consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause their financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between the *governmental and business-type activities* and discretely presented component units. Governmental activities generally are financed through

CITY OF PRESNO
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities.

Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and

CITY OF PRESNO
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations or other governments or major capital projects) that are legally restricted to expenditures for specified purposes.

Library Fund to account for Library contributions, fines and other revenues and related expenditures. This is a major fund.

Proprietary Funds:

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where

CITY OF PRESNO
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise funds do not apply any Financial Accounting Standards Board (FASB) Statements and interpretation issued after November 30, 1989.

Water Fund	a fund used to record financial transactions related to water utility operations. This fund is financed by user charges and grants. This is a major fund.
------------	---

Sewer Fund	a fund used to record financial transactions related to sewer operations. This fund is financed by user charges. This is a major fund.
------------	--

Fiduciary Funds - Fiduciary funds consist of the following sub-category and is never considered to be a major fund:

Private-purpose trust funds - Private-purpose trust funds are used for trust arrangements under which the principal and income benefit individuals, private organizations, or other governments.

The City maintains one private-purpose trust fund to account for annual contributions of the "Schoenhard Foundation" and expenditures of the trust. Expenditures are annually specified by the Trust, usually including contributions to various civic organizations and scholarships to students.

CITY OF PRESNO
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The City uses the cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the cash basis of accounting as defined below.

In the fund financial statements, the "current financial resources" measurement focus or the economic resources" measurement focus is used, applied within the limitations of the cash basis of accounting.

Basis of Accounting:

In the Government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental, business-type and component unit activities are presented using a cash basis of accounting.

CITY OF PRESNO
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types and fiduciary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

The enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

CITY OF PRESNO
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances. The City did not have internal receivables or payables as of December 31, 2009.
2. In order to minimize the doubling-up effect on the interfund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate. The City did not have any such internal activity during 2008 or 2009.

e. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments

CITY OF PRESHO
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

f. Capital Assets:

Under the cash basis of accounting, capital assets are recorded not as assets, but as a program cost (expense) when they result from cash transactions.

g. Long-term Liabilities:

Under the cash basis of accounting, cash proceeds from long-term debt issuances is recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated, but are reported as a separate program cost category.

Long-term debts arising from cash transactions of governmental funds are not reported as liabilities in the financial statements. Instead, the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting for long-term debts of proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

h. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows.

CITY OF PRESNO
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Program Revenues (continued):

1. Charges for services - These arise from charges to customers, applicants or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

i. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses that are capital and related financing activities or investing activities are reported as separate classifications of revenue or expense (on a cash basis).

j. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in two components:

1. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors,

CITY OF PRESNO
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

2. Unrestricted net assets - All other net assets that do not meet the definition of "restricted."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

k. Application of Net Assets:

It is the City's policy to first use restricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Deposits - The City deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits.

CITY OF PRESNO
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF
CREDIT RISK AND INTEREST RATE RISK: (continued)

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letter of credit issued by Federal Home Loan Banks accompanied by written evidence of that banks public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

It is the City's policy to deposit all interest revenue to the fund making the investment.

Custodial Credit Risk:

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a. Uncollateralized,
- b. Collateralized with securities held by the pledging financial institution, or
- c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

The City's deposits were not exposed to the above risks as of December 31, 2009.

Investments - In general, SDCL 4-5-6 permits municipal funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9

CITY OF PRESNO
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK: (continued)

requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

No investments were held as of December 31, 2009, except for certificates of deposit.

Custodial Credit Risk - Deposits -The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The City places no limit on the amount that may be invested in any one issuer.

State law allows income from deposits and investment to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment.

3. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year.

The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

CITY OF PRESHO
NOTES TO CASH BASIS FINANCIAL STATEMENTS

4. CHANGES IN CAPITAL ASSETS:

Since the City of Presho uses the cash basis of accounting, depreciation schedules are not maintained and capital asset records do not include the historical cost of all fixed assets. During the two years ending December 31, 2009 the City purchased the following capital assets:

	<u>Governmental Funds</u>	<u>Business Type Funds</u>
Improvements	\$ -	\$ 21,939
Equipment	<u>18,800</u>	<u>-</u>
Total	<u>\$ 18,800</u>	<u>\$ 21,939</u>

No material deletions occurred during the two year period ended December 31, 2009.

5. LONG-TERM DEBT

The City has no long-term debt as of December 31, 2009, nor during the two years then ended.

6. CONDUIT DEBT

The City had no conduit debit out standing as of December 31, 2009, nor during the two years then ended.

7. RELATED PARTY TRANSACTIONS:

The City had no related party transactions during the two years ending December 31, 2009.

8. SIGNIFICANT CONTINGENCIES OR LITIGATIONS:

The City had no significant contingencies nor litigations as of December 31, 2009, nor during the two years then ended.

CITY OF PRESNO
NOTES TO CASH BASIS FINANCIAL STATEMENTS

9. RESTRICTIONS ON ASSETS OR OWNERS EQUITY:

As of December 31, 2009, and during the two years then ended, the City had no restrictions on any assets or equity balances.

10. SUBSEQUENT EVENTS:

There have been no significant subsequent events since December 31, 2009, through August 26, 2010.

11. UNCERTAINTIES:

As of December 31, 2009, the City was not aware of any significant uncertainties.

12. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2009, the City managed its risks as follows:

Employee Health Insurance:

The City purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the coverage during the past three years.

Liability Insurance:

The City purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

CITY OF PRESNO
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS

12. RISK MANAGEMENT (continued)

Workmen's Compensation:

The City purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

13. RETIREMENT PLAN

All employees, except for part-time, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by the State statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9%, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social

**CITY OF PRESNO
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS**

13. RETIREMENT PLAN (continued)

security for general employees only. The City's share of contributions to the SDRS for fiscal years ended December 31, 2009, 2008 and 2007 were \$4,689, \$4,530 and \$4,335 respectively, equal to the required contributions each year.

14. JOINT VENTURE

The City participates in a joint venture, known as Tri-County Landfill, formed for the purpose of providing garbage dump area services to its member entities.

The members of the joint venture are as follows:

<u>Counties</u>	<u>Cities</u>
Tripp County	White Lake
Aurora County	Wessington Springs
Jerauld County	Plankinton
Brule County	Reliance
Lyman County	White River
Buffalo County	Alpena
Jones County	Lane
Mellette County	Colome
	Kennebec
	Chamberlain
	Kimball
	Oacoma
	Presno
	Draper
	Stickney
	Presno
	Pukwana
	New Witten
	Winner and
	Wood

The joint venture's governing board is composed of 12 representatives. The board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget.

CITY OF PRESNO
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS

14. JOINT VENTURE (continued):

The City retains no equity in the net assets of the joint venture, but does have a responsibility to fund deficits of the joint venture. This funding would be shared equally by all members.

Separate financial statements for this joint venture are available from the Tri-County Landfill.

As of December 31, 2008, this joint venture had total fund equity of \$315,576 and long-term debt of \$333,260. This is the most recent financial information the entity was able to provide as of August 26, 2010.

15. INTERFUND TRANSFERS

In 2009 a transfer of \$10,000 was made from the Sewer Fund to the General Fund to subsidize operations of the General Fund.

CITY OF PRESHO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
REVENUES			
Taxes:			
General property taxes	\$114,401	\$114,401	\$119,741
General sales and use taxes	133,980	133,980	143,360
Amusement taxes	168	168	168
Penalties and interest	501	501	1,782
Licenses and Permits	1,300	1,300	1,408
Intergovernmental Revenue			
Federal grants	35,000	35,000	0
State shared revenue	19,751	19,751	11,094
County shared revenue	450	450	9,881
Charges for Goods and Services			
Airport	2,750	2,750	3,372
Sanitation	2,000	2,000	3,413
Culture and recreation	9,600	9,600	9,912
Fines and Forfeits:			
Fines	200	200	60
Miscellaneous Revenue			
Investment earnings	6,000	6,000	4,837
Rentals	3,600	3,600	3,600
Liquor operating agreements	112,900	112,900	135,256
Other	7,701	7,701	19,258
Total Revenue	\$450,302	\$450,302	\$467,142

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance with
Final Budget-
Positive
(Negative)

\$5,340

9,380

0

1,281

108

(35,000)

(8,657)

9,431

622

1,413

312

(140)

(1,163)

0

22,356

11,557

\$16,840

CITY OF PRESHO
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND-CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

EXPENDITURES	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
General Government			
Legislative	\$5,405	\$5,405	\$4,467
Contingencies	30,075	30,075	0
Amount transferred	0	0	0
Other	45,000	55,000	42,123
Executive	6,530	6,530	4,505
Elections	610	610	553
Financial administration	41,766	42,966	44,248
Public Safety			
Dog catcher	200	200	130
Fire	8,800	12,399	12,188
Public Works			
Highways and streets	121,125	171,625	162,009
Sanitation	6,083	6,833	6,564
Airport	5,582	5,582	7,348
Culture and Recreation			
Recreation	80,642	80,642	58,600
Parks	28,700	27,500	21,873
Library	10,949	10,949	11,454
Other			
Liquor	92,000	92,000	115,430
Total Expenditures	483,467	548,316	491,492
Excess of Revenues over (under) Expenditures	(33,165)	(98,014)	(24,350)
Other Financing Sources:			
Transfers-in	0	0	10,000
Net Change in Fund Balance	(33,165)	(98,014)	(14,350)
FUND BALANCE-Beginning	323,371	323,371	323,371
FUND BALANCE-Ending	\$290,206	\$225,357	\$309,021

The accompanying notes to supplemental information are an integral part of the schedule

Variance with Final Budget- Positive (Negative)
\$938
30,075
0
12,877
2,025
57
(1,282)
70
211
9,616
269
(1,766)
22,042
5,627
(505)
<u>(23,430)</u>
<u>56,824</u>
73,664
<u>10,000</u>
83,664
<u>0</u>
<u><u>\$83,664</u></u>

CITY OF PRESHO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
REVENUES			
Taxes:			
General property taxes	\$114,401	\$114,401	\$116,395
General sales and use taxes	133,980	133,980	147,745
Amusement taxes	168	168	168
Penalties and interest	501	501	2,374
Licenses and Permits	1,300	1,300	1,255
Intergovernmental Revenue			
Federal grants	35,000	277,500	242,500
State shared revenue	19,751	19,751	21,044
County shared revenue	450	450	449
Charges for Goods and Services			
Sanitation	2,000	2,000	2,476
Airport	2,750	2,750	2,895
Culture and recreation	9,600	9,600	10,332
Fines and Forfeits			
Fines	200	200	90
Miscellaneous Revenue			
Investment earnings	6,000	6,000	6,208
Rentals	3,600	3,600	3,600
Liquor operating agreements	112,900	112,900	128,173
Other	7,701	7,701	10,781
Total Revenue	\$450,302	\$692,802	\$696,485

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance with
Final Budget-
Positive
(Negative)

\$1,994

13,765

0

1,873

(45)

(35,000)

1,293

(1)

476

145

732

(110)

208

0

15,273

3,080

\$3,683

CITY OF PRESNO
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND-CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2008

EXPENDITURES	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
General Government			
Legislative	\$5,405	\$5,405	\$4,447
Contingencies	30,075	30,075	0
Amount transferred	0	0	0
Other	45,000	45,000	42,700
Executive	6,530	6,530	3,698
Elections	610	610	30
Financial administration	42,966	42,966	37,424
Public Safety			
Dog catcher	200	200	162
Fire	8,800	251,300	247,573
Public Works			
Highways and streets	121,125	121,125	101,913
Sanitation	6,083	6,083	6,407
Airport	5,582	5,582	2,720
Culture and Recreation			
Recreation	80,642	80,642	50,105
Parks	27,500	27,500	19,632
Library	10,949	10,949	10,635
Other			
Liquor	92,000	92,000	108,110
Total Expenditures	483,467	725,967	635,556
Net Change in Fund Balance	(33,165)	(33,165)	60,929
FUND BALANCE-Beginning	262,442	262,442	262,442
FUND BALANCE-Ending	\$229,277	\$229,277	\$323,371

The accompanying notes to supplemental information are an integral part of the schedule

Variance with
Final Budget-
Positive
(Negative)

\$958
30,075
0
2,300
2,832
580
5,542

38
3,727

19,212
(324)
2,862

30,537
7,868
314

(16,110)

90,411

94,094

0

\$94,094

CITY OF PRESNO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgets and Budgetary Accounting:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution to the governing board.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund.
7. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles, on a cash basis.

**CITY OF PRESNO
SCHEDULE OF CURRENT AUDIT FINDINGS**

FINDING NUMBER 2009-01:

A lack of proper segregation of duties is the present situation in the City's accounting department.

CRITERIA:

Duties should be segregated so the same employees who handle cash do not record cash transactions nor have general ledger access. Bank reconciliation should be performed by personnel not involved with the check writing process. Other financial and accounting functions should be done by separate people.

CONDITION, CAUSE AND EFFECT:

The size of the entity precludes an adequate segregation of duties.

RECOMMENDATION:

The Mayor and Council Members should always be aware of this weakness as they review and approve transactions of the City and resulting financial reports. Compensating controls should be implemented whenever and wherever possible.

RESPONSE:

The City agrees with the finding, but does not intend to hire additional personnel just to segregate duties.

FINDING NUMBER 2009-02:

General Fund budgets were overspent, on a departmental basis, during both 2008 and 2009. In 2008, two departments had overdrafts totaling \$16,434. In 2009, four departments had overdrafts totaling \$26,983.

CRITERIA:

South Dakota Codified Law (SDCL) 9-21-9, 9-21-10 and 9-21-15 prohibits the City from spending in excess of the amount appropriated for any department.

**CITY OF PRESNO
SCHEDULE OF CURRENT AUDIT FINDINGS**

FINDING NUMBER 2009-02 (continued):

CONDITION, CAUSE AND EFFECT:

Budgets were inadvertently overspent due to inadequate oversight by City officials. The effect was a violation of SDCL and override of an important internal control tool (the budget).

RECOMMENDATION:

City officials should closely monitor budget versus actual disbursements during the year. Budgets should be properly supplemented when necessary.

RESPONSE:

The City agrees with the finding and intends to implement the recommendation as soon as possible.

FINDING NUMBER 2009-03:

Bank accounts of the Library Fund were not under control of the City Finance Officer nor was a budget for this fund included in the 2008 or 2009 appropriation ordinance.

CRITERIA:

SDCL 9-14-17, 9-14-18 and 9-14-21 require that City Finance Officer's control over all City funds. SDCL 9-21-2 requires the annual appropriation ordinance to include all funds except enterprise and trust funds

CONDITION, CAUSE AND EFFECT:

The Library Fund started years ago with an extremely small amount of cash. Since then, it has grown to a cash balance of \$197,881 as of December 31, 2009. The effect is a violation of SDCL's and a serious internal control weakness.

RECOMMENDATION:

The Library Fund bank accounts and books should be treated the same as those of the General Fund. Annual appropriation ordinances should include the Library Fund.

RESPONSE:

The City agrees with the finding and intends to implement the recommendation as soon as possible.

CITY OF PRESNO
SCHEDULE OF CURRENT AUDIT FINDINGS

FINDING NUMBER 2009-04:

The City has failed to monitor the activities of a substantial sub-recipient grantee.

CRITERIA:

Office of Management and Budget (OMB) Circular A-133 Section __.400, (d) (3) requires a pass-through entity to "monitor the activities of sub-recipients as necessary to ensure that Federal awards are used for authorized purposes....."

CONDITION, CAUSE AND EFFECT:

During 2008, the City received a Federal Community Development Block Grant (CDBG) in the amount of \$242,500. The City in turn granted these funds to a designated sub-recipient, the Presno Volunteer Fire Department. The Presno Volunteer Fire Department used the funds to build a new fire department garage and fire hall.

Since the City acted as a "pass-through entity," it has the inherent responsibility to monitor the activities of its sub-recipient, the Fire Department. This responsibility includes, among other procedures, to obtain financial statements of the Fire Department and to examine what other records as may be necessary to assure compliance with the terms of the CDBG grant. As of the date of this audit report, the City has not fulfilled its responsibility to monitor the Fire Departments compliance with the \$242,500 CDBG grant.

RECOMMENDATION:

The City should request financial records of the Fire Department and examine these records to the extent deemed necessary to assure compliance with the CDBG grant.

RESPONSE:

The City agrees with the finding and intends to implement the recommendation as soon as possible.

FINDING NUMBER 2009-05:

Federal surplus property was purchased by an employee in 2002

RECOMMENDATION:

The applicable property should be returned.

RESPONSE:

The City agrees with the finding.

CITY OF PRESNO
SCHEDULE OF PRIOR AUDIT FINDINGS

The following internal control weaknesses were reported to the City to be in effect January 7, 2003:

<u>Weakness Reported</u>	<u>Status as of December 31, 2009</u>
a) The City did not have a capitalization policy nor fixed asset records.	a) The City has since established a capitalization policy and lists of fixed assets. However, historical costs was not determined for all items on the listing.
b) Detailed subsidiary utility accounts receivable records were not reconciled to a general ledger control account.	b) Status remains unchanged.
c) Federal surplus property purchased by the City was sold to a City employee.	c) The property was not returned.
d) An independent comparison of the bulk water meter to recorded sales was not performed.	d) Status remains unchanged.
e) The City had not established separate funds for the Library, Water, Sewer or Private Purpose Trust Funds.	e) The required funds have all been since established.
f) The 2001 annual report contained financial reporting errors.	f) No errors were noted in the 2008 nor 2009 annual reports.